Second Party Opinion

Xinhu Zhongbao Co. Ltd.'s Green Finance Framework

Sept. 6, 2023

Founded in 1993 and based in Hangzhou, China, Xinhu Zhongbao Co. Ltd. develops residential properties, with a focus on the Yangtze River Delta region. The company also engages in urban redevelopment in Shanghai, as well as primary land development in Wenzhou and Nantong. Xinhu Zhongbao Co. Ltd. also has an investment arm, with cumulative investments in high technology companies reaching close to US$1.5 billion. The company is listed on the Shanghai Stock Exchange and had revenue of US$2.1 billion in the twelve months to Sept. 30, 2022. Zhejiang Xinhu Group Co. Ltd. and Mr. Huang Wei are the main shareholders, with holdings of 32.4% and 16.9%, respectively.

In our view, Xinhu Zhongbao’s green finance framework is aligned with:

✔ Green Bond Principles (GBP), ICMA, 2021 (with June 2022 Appendix 1)
✔ Green Loan Principles (GLP), LMA/LSTA/APLMA, 2023

Issuer's Sustainability Objectives

Echoing China’s carbon peak and neutrality goals, Xinhu Zhongbao aims to contribute to the country’s low-carbon transition through investment in high-tech businesses (e.g. blockchain, digital economy, fintech, artificial intelligence) and developing green properties. The company has made green commitments within its two major business segments--real estate and investment. For example, it commits to using technology to reduce energy consumption during the process of property development, and plans to invest in technology that advances sustainable development.

Xinhu Zhongbao has developed this green finance framework to issue green financing instruments (GFIs), including bonds, loans, and other debt-like instruments, and to fund projects that meet the company's green eligibility criteria. The company also expects the green finance framework will help diversify its investor base and reinforce its dialogue with responsible investors.
## Second Party Opinion Summary

### Use of proceeds

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<th>Alignment</th>
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Xinhu Zhongbao’s green finance framework is aligned with this component of the GBP and GLP.

Xinhu Zhongbao commits to allocating an amount equal to the net proceeds of the financing raised under the framework exclusively to eligible green projects that contribute to specific environmental objectives and the U.N. Sustainable Development Goals (SDGs). Reporting will include the share of financing versus refinancing. The look-back period for refinanced projects will not exceed two years from the time of issuance.

### Process for project evaluation and selection

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Xinhu Zhongbao’s framework outlines the process to select and approve eligible green projects. The company’s cross-departmental green bond workgroup (GBWG) will meet annually to discuss and screen projects according to the framework’s eligibility and exclusion criteria. The company will rely on its internal environmental, social, and governance (ESG) risk management policies and procedures to identify and manage the environmental and social risks potentially stemming from the financed projects.

### Management of proceeds

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Xinhu Zhongbao will deposit GFI’s net proceeds in a separate account and maintain a register to track the allocation of proceeds under the GBWG’s supervision. The company commits to adjusting the balance of net proceeds to match allocations to eligible projects during the time the instrument is outstanding. Xinhu Zhongbao will manage unallocated proceeds in compliance with its liquidity management practices.

### Reporting

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Xinhu Zhongbao commits to disclosing the allocation of net proceeds and the environmental impacts of the financed projects annually until full allocation of net proceeds. This information will be available on the company’s website.
Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

✔ Xinhu Zhongbao’s green finance framework is aligned with this component of the GBP and GLP.

Commitments score

We consider Xinhu Zhongbao’s overall use of proceeds commitments to be aligned.

Xinhu Zhongbao commits to allocating an amount at least equivalent to the net proceeds of financings issued under the framework to exclusively finance or refinance eligible projects within 24 months of issuance.

The framework has eight eligible categories--energy efficiency; circular economy adapted products, production technologies and processes and/or certified eco-efficient products; pollution prevention and control; green buildings; clean transportation; sustainable water and wastewater management; environmentally sustainable management of living natural resources and land use; and renewable energy.

Each category contributes to at least one environmental objective and supports specific U.N. SDGs. Environmental objectives include climate change mitigation, natural resource conservation, pollution prevention and control, and biodiversity conservation. For example, green building projects support climate change mitigation and SDG 11 (Sustainable cities and communities) by alleviating emissions in the real estate sector through the construction and renovation of energy and water efficient buildings. All eligible green properties must be certified within five years under Xinhu Zhongbao’s framework. Market practice has, typically, a shorter certification timeframe.

Projects related to pollution prevention and control include investments in equipment and technology to reduce, sort, and recycle waste. Likewise, sustainable water and wastewater management projects will help conserve water resources and facilitate water recycling. Nevertheless, it is not clear whether the eligibility criteria exclude management of hazardous waste or waste management without energy recovery, which have lower environmental benefits in our view. Xinhu Zhongbao’s examples of renewable energy projects (including wind, solar, and geothermal energy), and clean transportation projects, support systemic decarbonization. However, the lack of direct emission thresholds for geothermal energy projects constrains our view of the environmental benefits of such projects.

Xinhu Zhongbao will disclose the share of financing versus refinancing of the proceeds in its allocation reporting. The look-back period for refinanced projects will not exceed two years from the time of issuance, which compares favorably with the 36-month market practice.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For the process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

✔ Xinhu Zhongbao’s green finance framework is aligned with this component of the GBP and GLP.

Commitments score

We consider Xinhu Zhongbao’s overall process for project selection and evaluation commitments to be aligned.
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The framework clearly describes the process to determine how projects fit within eligible categories. The company has set up a GBWG consisting of members from various functions such as strategy, audit, securities affairs, financial management, real estate strategic development, design management, and engineering management. The GBWG will meet annually to discuss and select projects according to the framework’s eligibility criteria. The company commits to not allocating proceeds, including the temporary placement of unallocated proceeds, to activities on the latest International Finance Corporation Exclusion List. Such activities include weapons, alcohol, tobacco, gambling, radioactive materials, and forced or child labor.

The framework also details Xinhu Zhongbao’s processes for identifying and managing environmental and social risks associated with financed projects. Adhering to the company’s internal ESG risk management policies and procedures, the GBWG will analyze these risks during the project evaluation and selection process and ensure there are measures in place to manage identified risks. In addition, the GBWG will conduct an environmental survey for each eligible project to ensure compliance with local laws and regulations and monitor the construction progress on a regular basis.

Xinhu Zhongbao incorporates clear eligibility criteria by setting quantitative thresholds or referencing market-based certifications for some eligible project categories. For example, eligible energy efficiency projects need to achieve at least 15% reduction in energy consumption intensity. Similarly, eligible green building projects must meet national or international certifications such as Chinese Green Building Label, LEED (Leadership in Energy and Environmental Design), BREEAM (Building Research Establishment Environmental Assessment Method), or Singapore’s BCA (Building and Construction Authority) Green Mark.

Management of proceeds

The Principles require disclosure of the issuer’s management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer’s commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

✔ Xinhu Zhongbao’s green finance framework is aligned with this component of the GBP and GLP.

The net proceeds will be deposited in a separate account under the GBWG’s supervision. Xinhu Zhongbao will maintain a register to track the allocation of proceeds.

The company commits to tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible projects during the time the instrument is outstanding.

Pending allocation, unallocated proceeds will be managed according to the company’s internal liquidity management practices, such as investment in investment-grade money market instruments or green, social and sustainability bonds. The company will disclose to investors the types of temporary placement of unallocated proceeds.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✔ Xinhu Zhongbao’s green finance framework is aligned with this component of the GBP and GLP.

Disclosure score

We consider Xinhu Zhongbao’s overall reporting practices to be aligned.
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The company commits to reporting the allocation of the net proceeds, and the impacts of the financed projects. It will report the information on an annual basis until full allocation of the net proceeds. This information will be available on the company’s website.

Allocation reporting will include a brief description of financed projects, the share of financing versus refinancing, the breakdown of the proceeds among the eight eligible categories, the total instrument outstanding, and the balance of unallocated proceeds and any temporary placement.

In addition, the company will disclose both the expected and actual environmental impacts of the financed projects, subject to data availability. Impact indicators include energy reduction, carbon emissions avoided, amount of waste reused or recycled, number of certified green buildings, water consumption reduction, installed renewable energy capacity, among others. Xinhu Zhongbao will also consider, but does not commit to, aligning impact indicators with International Capital Market Association (ICMA)’s Harmonized Framework for Impact Reporting.

Xinhu Zhongbao does not commit to engaging an independent third-party to verify or audit its allocation reporting post issuance, nor to disclosing the assumptions behind the impact metrics. Such disclosures would have added transparency to its reporting practices.
Mapping To The U.N.’s Sustainable Development Goals

The SDGs, which the U.N. set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the ICMA’s SDG mapping for this part of the report. We acknowledge that ICMA’s mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Xinhu Zhongbao’s green finance framework intends to contribute to the following SDGs:

<table>
<thead>
<tr>
<th>Use of proceeds</th>
<th>SDGs</th>
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<td>Energy efficiency</td>
<td>*7. Affordable and clean energy</td>
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<tr>
<td>Circular economy adapted products, production technologies and processes and/or certified eco-efficient products</td>
<td>9. Industry, innovation and infrastructure</td>
</tr>
<tr>
<td>Pollution Prevention and Control</td>
<td>*12. Responsible consumption and production</td>
</tr>
<tr>
<td>Green buildings</td>
<td>*11. Sustainable cities and communities</td>
</tr>
<tr>
<td>Clean transportation</td>
<td>*11. Sustainable cities and communities</td>
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</table>
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Sustainable water and wastewater management

*6. Clean water and sanitation

Environmentally sustainable management of living natural resources and land use

*15. Life on land

Renewable energy

*7. Affordable and clean energy

*The eligible project categories link to these SDGs in the ICMA mapping.
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